FISCAL NOTE

Bill #: **SB157** **Title:** **Generally revise taxation**

Primary Sponsor: **Mike Sprague** **Status:** **As Introduced**

Sponsor signature Date Dave Lewis, Budget Director Date

Fiscal Summary

	FY2000 Difference	FY2001 Difference
Expenditures:		
General Fund	($4,616,496)	$235,527,453
Revenue:		
General Fund	($2,383,000)	($227,257,000)
State Special - Universities	0	(15,314,000)
State Special – District Courts	(638,750)	(1,277,500)
Net Impact on General Fund Balance:	**$2,233,496**	**$(462,784,453)**

Yes	No		Yes	No	
X		Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts

Fiscal Analysis

ASSUMPTIONS

Property Tax Impacts

1. HB20 personal property tax reimbursements are repealed effective January 1, 2000. These reimbursements are provided by direct appropriation out of the general fund. The local government portion of the June, 2000 HB20 reimbursement is $5,548,000 (FY2000 impact); HB20 reimbursements to local governments total $9,862,000 in FY2001.
2. SB417 personal property tax reimbursements also are repealed effective January 1, 2000. These local government reimbursements are administratively provided for by having county treasurers withhold the required amounts from the 40-mill levy account prior to remitting the revenue to the state general fund. The June, 2000 local government reimbursement under SB417 is $8,772,000 and is based on tax year 1999. Local governments will no longer be able to withhold this amount from the remittance of the 40-mill account, increasing state general fund revenue by a like amount

in FY2000. There is no impact from repealing SB417 reimbursements in fiscal year 2001. Under current law, county governments would have withheld $11,300,000 from remittances of revenue in the 40-mill account. The state would not have received this revenue. Under the proposal, there is no 40-mill account in fiscal 2001, so the state will not receive this revenue under the proposal as well.

3. The bill repeals the 95 mills levied for statewide school equalization effective January 1, 2000. This has no effect on FY2000 revenues. Revenue from the 95 mills levied for the general fund is reduced $218,136,000 in FY2001. (Note: The HJR2 estimate of $218,136,000 for the 95-mill account in FY2001 is net of the $11,300,000 SB417 reimbursement that would have been made to local governments under current law.)
4. The 6-mill levy for the university system exists under current law. Under the proposal this levy is repealed and results in a reduction to the university system account of $15,314,000 in fiscal 2001 (HJR2).
5. Personal property taxes are repealed effective January 1, 2000. A portion (38%) of personal property not liened to real property pays property taxes in April and May of 2000 based on the prior year's mills. Under the proposal this revenue would no longer be available. This will reduce revenue to the general fund by $7,671,000.
6. The railcar tax is repealed effective January 1, 2000; repealing this tax has no impact in FY2000, but reduces general fund revenue by $2,153,000 in FY2001 (HJR2).

Motor Vehicles

7. Under current law, the general property tax rate on light cars and trucks is 2% of depreciated MSRP; under the proposal, the tax rate on light cars and trucks is reduced to 1.5% of depreciated MSRP.
8. Under current law, 7% of the taxes collected under the 2% property tax on light cars and trucks is distributed to district courts. The remaining property taxes (as well as fees in lieu of taxes collected on motorcycles, quadricycles, motor homes, travel trailers, campers, trailers, pole trailers, semitrailers, buses and trucks under 1 ton, and truck tractors) are deposited in the motor vehicle suspense fund and distributed periodically in the relative proportion of mills levied on personal property. Under the proposal, 7% of the 1.5% tax on motor vehicles continues to be deposited as a district court fee; 20% of all remaining taxes is deposited directly to the state general fund, and 80% is distributed in proportion to relative mill levies.
9. Relative mill levies are 6 mills for the university system; 95 mills for the state general fund; 89.27 mills for county government; 37.16 mills for cities and towns; and 159.43 mills for schools.
10. Total motor vehicle property tax collections are $73,000,000 under current law; under the proposal total collections are $54,750,000.
11. The above assumptions result in decreases in motor vehicle property tax in the following amounts: $1,277,500 to district courts; $1,052,939 to the university system; and $6,488,035 to the state general fund.
12. Total revenue from taxes and fees other than the 2% property tax on motor vehicles is $10,536,000. Under current law this revenue is distributed on the basis of relative mills; under the proposal this revenue is distributed 20% to the state general fund, with the balance distributed on the basis of relative mills.
13. Assumption 6 results in a reduction in revenue from all other motor vehicle fees of $163,408 for the university system, and $480,093 for the state general fund.

14. The total impact from changes in tax rates and distribution of motor vehicles is a decrease of $1,277,500 to district courts; $1,216,347 to the university system; and $6,968,127 to the state general fund.
15. Due to the applicability dates in the bill, half of the above annualized impacts will occur in fiscal 2000, whereas the full annualized impacts will occur in fiscal 2001 and subsequent years.

School Funding - Base Budgets

16. School funding provisions of the bill are effective July 1, 2000 (FY2001).
17. Under current law, the state general fund provides each school district's funding for direct state aid (40% of base budget plus special education costs), and guaranteed tax base aid (GTBA); under the proposal the general fund would provide funding for the district's entire base budget.
18. Current law general fund expenditures in FY2001 total $410,362,000; under the proposal general fund expenditures total $575,878,000. This is an increase in general fund expenditures of **$165,516,000** (OPI).

School Funding - Retirement

19. Under current law the state general fund provides GTB funding for retirement of $19,258,000 (OPI).Under the proposal the state would fund the entire retirement budget net of any fund balance reappropriated. In FY2001, the total retirement budget is $97,061,000; fund balance reappropriated is $7,100,000. This increases the state general fund obligation by **$70,703,000** in FY2001.

School Funding - Transportation

20. Under current law, the state general fund provides $10,809,950 to fund one-half school district “on-schedule” transportation requirements. Under the proposal, the state would fund the entire “on-schedule” amount in FY2001 increasing the state obligation by **$10,809,950**.
21. The above school funding assumptions require an increase in state general funding of school budgets of **$247,028,950** in FY2001.

Department of Revenue – administrative costs

22. In order to comply with the provisions of this bill, the Department of Revenue will have to make a determination of what property currently classified as personal property will continue to be taxed as real property under new definitions in the bill, and provide assessments for those properties. This will require an extensive one-time effort on the part of the department in fiscal year 2000. The department estimates that in fiscal year 2000 43 FTE will need to be hired (or retrained) to review the changes in personal property defined as real; 73 FTE will no longer be needed for half the year in relation to costs associated with the elimination of personal property; and 23 FTE will be needed to work the new homestead exemption program. This results in a net increase of 29.5 FTE in fiscal 2000.
23. This work will continue in subsequent years, but at a reduced level of effort. For determination of real property currently classified as personal property, only new accounts and new ownerships will have to be assessed. This reduces the FTE requirements from the fiscal 2000 level of 43 FTE to a fiscal year 2001 level of 9 FTE, for a net reduction of 34 FTE for this aspect of the bill. Eliminating the taxation of personal property will result in a reduction of 73 FTE for the full year in fiscal 2001. Finally, the department will require 9 FTE in fiscal 2001 to continue working the

homestead exemption program. This results in a net decrease of 55 FTE below current levels for fiscal 2001.

24. This proposal will require an *increase* in administrative costs of $931,504 in fiscal year 2000; and a *decrease* in administrative expense of $1,639,497 in fiscal year 2001.

FISCAL IMPACT:	FY2000 Difference	FY2001 Difference
FTE (net change)	29.50	(55.00)
Expenditures:		
Personal Services	$950,363	($1,289,319)
Operating Expenses	(18,859)	(350,178)
Local Assistance – School BASE aid	0	165,516,000
Local Assistance – School Retirement	0	70,703,000
Local Assistance – School Transportation	0	10,809,950
Repeal HB20 Reimbursements	(5,548,000)	(9,862,000)
Transfers	0	0
TOTAL	($4,616,496)	$235,527,453
Funding:		
General Fund (01)	$4,616,496	$235,527,453
Revenues:		
Repeal SB417 Reimbursements	$8,772,000	0
Repeal 95-mill SEA Levy	0	($218,136,000)
Repeal Railcar Tax	0	(2,153,000)
Allocate MV Tax	(3,484,000)	(6,968,000)
Pers. Prop. Not Liened to Real	(7,671,000)	0
Subtotal General Fund	$(2,383,000)	($227,257,000)
Repeal 6-mill Univ. Levy	$ 0	($15,314,000)
District Courts – MV tax	(638,750)	(1,277,500)
Subtotal Non General Fund	($638,750)	($16,592,500)
Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund (01)	$2,233,496	$(462,784,453)
State Special - Universities (02)	$0	$(15,314,000)
State Special – District Courts (02)	$(638,750)	$(1,277,500)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

The bill provides for many changes to the property tax system including:

- eliminating property classes and setting taxable value equal to market value for purposes of property taxation;
- eliminating the taxation of certain business equipment and livestock;
- providing for a homestead exemption of 65% of the first $50,000 of market value.

Under the assumption that local governments' budgets remain unchanged under the proposal, these features of the bill have no impact on state or local government revenues or collections. These features of the bill will result in significant realignment of the share of total property taxes borne by different property types, and will provide for reallocation of non-levy revenue to county, city/town, and miscellaneous taxing jurisdictions. Local government mill levies will be reduced substantially under this proposal, as taxable value is set equal to market value. Property taxes statewide will be reduced substantially as only county governments, city/town governments, small miscellaneous taxing jurisdictions, and some reduced portion of the over-base funding of school districts will be supported by property taxes.

LONG-RANGE IMPACTS:
Combined with SB143, this legislation represents long-term, comprehensive tax reform.

TECHNICAL NOTES:
1. The new definition for the term "improvements" will result in significant amounts of property that was previously personal property being valued and taxed as real property.
2. The current language of 15-8-111 should be reviewed for inconsistencies since it references various classes of property that will be eliminated by this Act.
3. In section 36, subsection (1) there is a reference to "associated outbuildings and 1 acre of land beneath of improvements." It would seem to be more consistent with the philosophy of the exemption to amend this subsection to read, "..up to 1 acre of land beneath the improvements.".
4. The language in Section 40 does not change 15-7-111. The current language regarding the periodic revaluation of property remains, including the phase-in requirements of Senate Bill 195 and references to class 3, 4, and 10 property, even though these classes of property are repealed by this legislation.
5. The changes in section 42 seem to provide for the valuation and taxation of non-qualified agricultural land at market value.
6. Sections 75 through 78 address statutes that deal with the per capita tax on livestock. They leave in place the requirement for the department to gather livestock information for the assessment of the per capita tax. Since livestock will no longer be taxable, there is no reason for the department to be responsible for securing those numbers for the Department of Livestock. Those duties should be transferred to the Department of Livestock or the County Treasurer.
7. No replacement for the elimination of the 6 Mill university levy is provided in this bill.